

What you need to know

Getting into your home is a big deal. However, saving for your home can sometimes be an even bigger deal.

Putting aside a 20% deposit (typically what's needed for a home loan) can take a long time.

If you have a smaller deposit, it means that you have a smaller buffer against negative movements in the property market. So, if your property has to be sold, there might be insufficient monies to clear your debt - which creates a risk for you and for Bankwest.

Paying Lenders' Mortgage Insurance (LMI) can help you get into your new home sooner because you don't have to save up as much for your deposit. It allows Bankwest to accept a smaller deposit from you, where we might not have otherwise been able to.

What's LMI?

- It's a type of loan insurance to protect Bankwest's potential losses if there is insufficient funds to clear your debt
- It's a one-off fee that you need to pay if you have a deposit that's less than 20%
- It doesn't cover you for your repayments if you're unable to meet your repayment obligations.

How it works

If you're unable to make your loan repayments down the track and your property is sold for a lower price than what you still owe on your loan - the LMI policy kicks in to clear this shortfall debt.

The insurer usually covers the difference between how much your property is sold for and the outstanding loan balance. This amount is then paid to Bankwest.

It's important to know that if the insurer pays Bankwest the shortfall debt, you might still be responsible to repay this amount to the insurer. The insurer might also use a debt collector to recover the debt. All three parties (Bankwest, the insurer and debt collector) are required to have financial hardship policies in place.

Here's a couple of examples of LMI in use

Example 1:

If you have an outstanding loan balance of \$500,000 that you default on and Bankwest are only able to sell the house for \$450,000, then Bankwest might claim the \$50,000 shortfall from the LMI provider. The LMI provider then has the right to seek repayment of the \$50,000 from you, so LMI hasn't protected you as a borrower.

Example 2:

If you want to buy a house that's worth \$500,000, Bankwest would typically require you to provide a deposit of \$100,000 (20% of the property's value). If you've only saved \$50,000, but you have sufficient income to support the loan, you might be able to take advantage of LMI. Bankwest could then lend you the \$450,000 you need.

The cost of LMI

The cost of LMI is based on the value of your property, your deposit and total loan amount. However, there might be other factors that influence this. Your Home Finance Manager or Broker will be able to talk you through this and let you know how much it might cost.

LMI is a one-off cost

It's payable by Bankwest to an LMI insurer. This cost is then passed on to you, without any mark-up from Bankwest. Depending on your situation, you can either pay it upfront or add to your home loan. If you're adding it to your home loan, just be aware that you'll be paying interest on it.

Note: If you do decide to refinance your Home Loan, a new LMI policy might be required and you might be required to pay any associated costs.

LMI might be partially refundable

The LMI fee isn't refundable after the first year. If you decide to repay your loan, refinance or switch to another lender within the first year, then you might be eligible for a partial refund.

The difference between LMI, Mortgage Protection Insurance (MPI) and Building Insurance

LMI is insurance that protects Bankwest, MPI protects your repayments and Building Insurance protects your property. By taking out MPI, your monthly mortgage repayments might be covered if you're unable to work due to serious illness, disability, redundancy or death. Building Insurance could cover your property against things like fire, storm damage or vandalism.

Managing your home loan repayments

If you begin to experience problems and can't make your loan repayments on time, please contact Bankwest straight away to discuss your situation and possible options.

For additional information, please contact Bankwest on 13 17 19.